

**DEPARTMENT OF INSURANCE
STATE OF CALIFORNIA
45 Fremont Street, 21st Floor
San Francisco, California 94105**

RH-01016587

July 26, 2002

INITIAL STATEMENT OF REASONS

CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM

INTRODUCTION

California Insurance Commissioner Harry W. Low proposes the amendment of the California Automobile Insurance Low Cost Program Plan of Operations, approved by the Commissioner, and referenced in Title 10, Chapter 5, Subchapter 3, Article 8, Section 2498.6 of the California Code of Regulations. The proposed changes refer to sections of the Plan of Operations regarding transfer procedures under a buy-out contract for Program policies already in force.

The purpose of these regulations is to implement, interpret and make specific the provisions of California Insurance Code Sections 11623.5, 11629.7, 11629.79, 11629.9, and 11629.99.

California Insurance Code (CIC) Sections 11629.7 through 11629.84 establish, within the California Automobile Assigned Risk Plan (CAARP), a low-cost automobile insurance pilot program for the County of Los Angeles. CIC Sections 11629.9 through 11629.995 establish, within the California Automobile Assigned Risk Plan, a low-cost automobile insurance pilot program for the City and County of San Francisco.

Because the low cost automobile insurance pilot programs are established and administered through the California Automobile Assigned Risk Plan, established under Section 11620 of the Insurance Code, the procedures and requirements applicable to the low cost automobile insurance pilot programs are the same as the procedures and requirements applicable to the assigned risk plan, where appropriate and not inconsistent with the low cost automobile insurance statutes.

CIC 11629.7 and 11629.9 require the Commissioner to approve or issue a reasonable plan for the equitable apportionment, among insurers, of persons residing in the County of Los Angeles and the City and County of San Francisco who are eligible to purchase a low-cost automobile insurance policy through the pilot programs. CIC Sections 11629.79 and 11629.99 require the Commissioner, in consultation with the California Automobile Assigned Risk Plan, to adopt regulations to implement the low cost automobile insurance pilot programs. These amendments to the regulation are intended to comply with those statutory mandates.

Currently, the Plan of Operations allows insurers to enter into agreements whereby one insurer (servicing company) will write the low-cost automobile insurance business of another insurer (buy-out company) for a fee. Because the current provision in the Plan of Operations was

written before the low cost automobile insurance program began, it does not address policies in force when an insurer decides to enter into a buy-out contract with another insurer to assign its low-cost automobile insurance business. The proposed changes fill this gap and are intended to clarify procedures involving the transfer of Program policies already in force.

SPECIFIC PURPOSE OF THE REGULATIONS AND NECESSITY

The specific purpose of each regulation and the rationale for the Commissioner's initial determination that each regulation is reasonably necessary to carry out the purpose for which it is proposed is set forth below.

Section 8 B. 7.

Existing Section 8 B on Limited Assignment Distribution Procedures in the current Plan of Operations sets forth general standards for buy-out arrangements of an insurer's low cost automobile insurance quota. It does not specifically set forth standards for the transfer of policies already in force. The lack of procedures may lead to confusion as to the obligations of the buy-out company and servicing company.

The proposed new subsection 7 sets forth transfer requirements and procedures for policies already in force. Under the new proposed provision, the buy-out company may only transfer a low-cost automobile insurance policy to the servicing company upon expiration of the policy. Before doing so, it must determine whether the insured is eligible for renewal. If the insurer determines that the insured is no longer eligible for a low-cost automobile policy, it must so notify the insured. Only those policies eligible for renewal may be transferred to the servicing company. If the insured is eligible for renewal, the buy-out company must notify the insured and the producer that the policy is being transferred to the servicing company. Adopting this subsection is necessary to clarify the transfer requirements and obligations of the buy-out company with respect to Program policies already in force so that affected persons are knowledgeable about their rights and obligations.

Section 8 B. 8.

A portion of existing subsection 6 of Section 8 B has been re-numbered and is now designated as subsection 8 of Section 8 B. The rationale for this proposed technical change is to achieve a topical flow of information for ease of readability.

Section 8 B. 9.

Existing subsection 7 of Section 8 B has been re-numbered and is now designated subsection 9. The reason for this proposed technical change is to achieve numerical consistency as a result of the proposed addition of the new subsection 7.

IDENTIFICATION OF STUDIES

The Commissioner has not relied upon technical, theoretical, or empirical studies or reports in proposing these regulations.

SPECIFIC ACTIONS, PROCEDURES, TECHNOLOGIES OR EQUIPMENT

Adoption of these regulations would not mandate the use of specific technologies or equipment or prescribe specific actions or procedures.

ALTERNATIVES

The Commissioner has determined that no reasonable alternative exists to carry out the purpose for which the regulations are proposed or would be as effective and less burdensome to affected private persons than the proposed regulation.

ECONOMIC IMPACT ON BUSINESS

The Commissioner has initially determined that the proposed regulations will not have a significant adverse economic impact on businesses because insurers and producers are already required to comply with the same requirements and the proposed amendments merely clarify existing standards. The Commissioner invites interested parties to comment on whether the proposed regulations will have a significant adverse economic impact on business.